



PanCanadian

Annual
Report
1973

Two Year Comparative Highlights

Financial	1973	1972	% Increase
Gross Income	\$75,374,489	\$47,271,088	59.5
Funds from Operations	49,871,723	34,964,729	42.6
Per Share	1.60	1.12	
Net Income	24,299,970	15,244,203	59.4
Per Share78	.49	
Cash Dividends	12,795,253	9,982,240	28.2
Per Share41	.32	
Capital Expenditures	32,014,197	30,337,942	5.5
Long Term Debt	93,467,842	71,979,167	
Working Capital	10,900,023	29,895,613	

Operations

Production — net (daily)			
Oil — bbls.	40,574	31,096	30.5
Natural Gas Liquids — bbls.	2,947	2,899	1.7
Empress Plant — bbls.	7,065	—	
	50,586	33,995	48.8
Natural Gas — MMcf	210.2	199.5	5.4
Sulphur — l.t.	263	267	

Drilling Record

Exploratory Wells Drilled	157	60
Successfully Completed	100	24
Development Wells Drilled	184	52
Successfully Completed	167	40

Net Oil Wells	467.5	444.5
Net Gas Wells	574.9	367.1
Net Acres	19,705,221	14,797,944

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Annual General Meeting

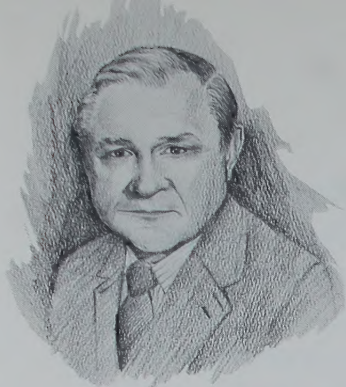
The Annual General Meeting of Shareholders will be held in the Marquis Room of the Palliser Hotel, Calgary, Alberta at 10:00 a.m., on Thursday, April 11th, 1974. Notice of meeting, information circular and form of proxy are being mailed to each Shareholder with this report.

Cover and Photographs:

Cover design of North American continent by
Robert A. Saunders.

Photographs by Nick Morant.

Directors



ROBERT W. CAMPBELL



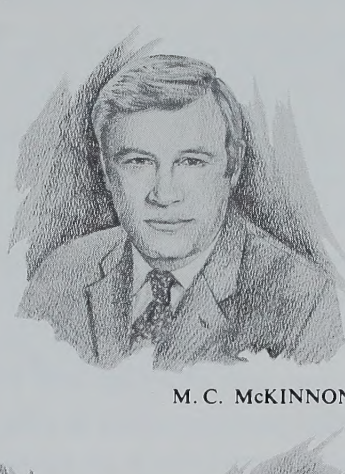
J. M. TAYLOR



IAN D.
SINCLAIR, Q.C.



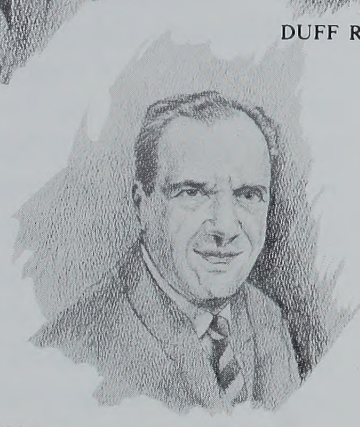
DUFF ROBLIN, P.C.,



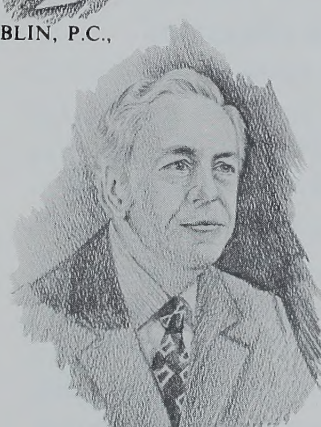
M. C. McKINNON



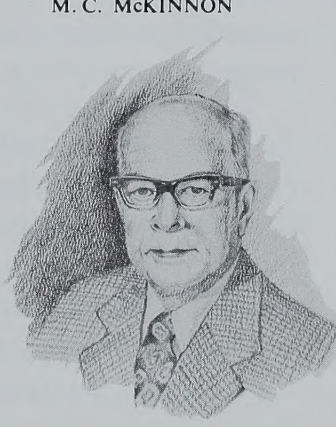
HUGH A. MARTIN



A. D. COHEN



J. K. FINLAYSON



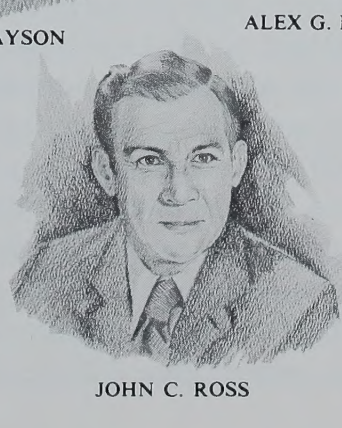
ALEX G. BAILEY



J. STEWART
FISHER



H. M. PICKARD



JOHN C. ROSS

*ALEX G. BAILEY Calgary, Alberta
Director, Hillbrand Industries Limited and
Con Ventures Limited

*ROBERT W. CAMPBELL Calgary, Alberta
Chairman of the Board and Chief Executive
Officer PanCanadian Petroleum Limited,
Director, Canadian Pacific Investments Limited
and TransCanada PipeLines Limited

A. D. COHEN Winnipeg, Manitoba
President, General Distributors
of Canada Limited

J. K. FINLAYSON Montreal, Quebec
Vice President and Chief General Manager,
The Royal Bank of Canada

J. STEWART FISHER Calgary, Alberta
Partner, MacKimmie Matthews

HUGH A. MARTIN Vancouver, British Columbia
President, Western Construction and Engineering
Research Ltd.

M. C. McKINNON Calgary, Alberta
Executive Vice President, PanCanadian
Petroleum Limited

*H. M. PICKARD Calgary, Alberta
Executive Vice President, Canadian Pacific
Investments Limited

THE HONOURABLE
DUFF ROBLIN, P.C., C.C. Montreal, Quebec
President, Canadian Pacific Investments Limited

JOHN C. ROSS Lethbridge, Alberta
President, Milk River Cattle Company Limited

IAN D. SINCLAIR, Q.C. Montreal, Quebec
Chairman of the Company and Chief Executive Officer,
Canadian Pacific Limited

*J. M. TAYLOR Calgary, Alberta
President, PanCanadian Petroleum Limited
and Chairman of the Board, Panarctic Oils Ltd.

*Member Executive Committee

To the Shareholders

On behalf of your Board of Directors we welcome this opportunity to present the 1973 Annual Report of PanCanadian Petroleum Limited. Financial results for 1973 reflect the attainment of your Company's fifth consecutive year of record gross income, cash generated from operations and net income. Contributing to this achievement were substantially increased production and product price increases.

Gross income reached \$75.4 million compared to \$47.3 million in 1972. Funds from operations increased from \$35.0 million or \$1.12 per share in 1972 to \$49.9 million or \$1.60 per share in 1973. Net income rose from \$15.2 million to \$24.3 million representing an increase from \$0.49 per share in 1972 to \$0.78 per share in 1973.

Production of crude oil and natural gas liquids increased from 12.4 million barrels in 1972 to 18.5 million barrels in 1973, a major portion of which came from the Empress Plant. Natural gas sales increased by 3.7 billion cubic feet to an annual rate of 76.7 billion cubic feet. Contrary to industry trend, during 1973 PanCanadian was successful in substantially increasing its proven gas reserves and also in replacing most of the oil produced during the year.

Renegotiations of existing contracts

during 1973 resulted in increased selling prices for 57% of PanCanadian's average daily contracted volumes of gas representing 114 million cubic feet per day of a total daily average volume of 210 million cubic feet per day.

As a result of the increasing demand for all forms of energy and the increase in field natural gas prices, PanCanadian embarked upon an extensive shallow gas exploratory and development drilling program in southern Alberta. The success of the program which was initiated in 1972 with five wildcat wells has increased Company gas reserves and enabled us to consider participation in integrated projects.

PanCanadian recently announced preliminary plans for the construction of the first stage of a natural gas based nitrogen complex to be located in south eastern Alberta. PanCanadian will have a 60% ownership in the \$45 million joint venture with the remaining 40% being held by the Tyler Corporation of Dallas, Texas. Construction of this facility will commence in 1974 and will require more than two years to complete. It will initially produce over 1000 tons per day of anhydrous ammonia. This project is in keeping with the Alberta Government's policy of encouraging processing of raw materials within the Province. Anhydrous ammonia is a basic chemical used in the manufacture

of fertilizers and in a wide range of commercial products. The natural gas feedstock to supply the ammonia plant will come from PanCanadian's proven reserves. Marketing the finished product rather than the raw material will provide additional incentives for further industrial development and employment opportunities in Alberta.

The increase in funds generated from operations has enabled PanCanadian to maintain an extensive exploration program. Of the \$49.9 million generated from operations, over sixty percent was reinvested in the search for and development of hydrocarbon reserves. The major portion of these funds was expended in Canada from the Arctic to the Maritimes. Our 1973 drilling program ranked PanCanadian as the leading operator in terms of drilling completions in Alberta and in Canada. More than 700 wells were drilled on Company lands during the past year of which seventy-five percent were successfully completed.

Your Company is currently participating in a four well exploratory program to earn a net 12.5% interest in 13 million acres offshore Nova Scotia. In addition, a seismic program was conducted in the Mackenzie Delta and through its 9.03% interest in Panarctic Oils Ltd., PanCanadian is participating in exploring for reserves in the Arctic Islands.

In keeping with the increasing worldwide energy demand and in particular the immediate demand for petroleum, PanCanadian extended its international exploration program during 1973. An exploratory well in the United States found oil reserves in Campbell County, Wyoming. PanCanadian's net production is currently 830 barrels of crude oil per day from this new field. Current crude prices in the Wyoming Ollie Field are \$9.80 per barrel compared to the Alberta average of \$3.45 per barrel and the Saskatchewan average crude price of \$3.08 per barrel during 1973. The Company has participating interests in successful development wells which were drilled in Texas and New Mexico.

An exploratory well was drilled offshore Indonesia which earned the company a 50% interest in five million acres. Seismic data was acquired in selected parts of the world including areas along the East Coast of the United States, in the Gulf of Mexico, in the Gulf of Alaska, in offshore areas of Peru, Tunisia and in the North Sea. The North Sea, continuing to rate highly among the world's offshore areas, remained a prime area of our foreign exploratory program. We are currently awaiting an announcement from the Norwegian Government regarding our application for permits in their sector of the North Sea. In the Netherlands sector, a natural gas

discovery in Block Q-7 in which PanCanadian has a 5% interest, is currently being evaluated.

Political developments pertaining to the Canadian petroleum industry during the past year have resulted in an atmosphere of great uncertainty and concern. As the largest Canadian owned independent petroleum company, PanCanadian is disturbed about the lack of cooperation and agreement between the Federal Government and the producing and consuming Provinces, as related to future policies for oil and natural gas.

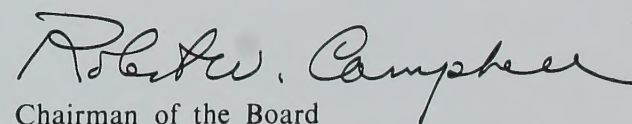
Canada is currently in a position of self-sufficiency with regard to energy. Under present conditions however, it is indicated that deliverability of natural gas to meet Canadian demand will commence a decline within two years and the producibility of conventional oil will begin to decline by 1980-1981. Proven crude oil reserves in Canada were reduced during 1973 to a reserve life index of less than twelve years. In order to maintain self-sufficiency in petroleum in the coming years, Canada will have to rely in the main on the aggressiveness, expertise and in particular on the funds provided by its oil and gas industry. These will not be forthcoming unless the industry is confident that the future prices received for its oil and gas are sufficient to cover the

greater risks and costs involved in the new frontier exploration regions.

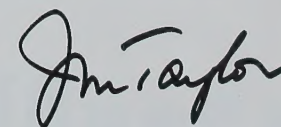
Government must soon decide what reasonable portion of the future price revenues are to be passed on to industry if we are to utilize our relatively short "lead time" to find and develop the additional reserves necessary for continued self-sufficiency in petroleum. The large capital requirements of our industry will only be satisfied in an environment of open communication and cooperation between industry and all levels of government.

We are pleased to report the appointment of Mr. A. W. Groll as an officer of the Company in the position of Vice President — Production.

Your directors recognize and appreciate the continuing dedication of the staff toward the progress and success of PanCanadian.



Chairman of the Board
and Chief Executive Officer



President

Calgary, Alberta
March 15, 1974

Exploration and Development

Capital Expenditures

Capital expenditures during the year, exclusive of our investment in Panarctic Oils Ltd. and our acquisition of PanCanadian Gas Products Ltd. amounted to \$32.0 million. This increase of \$1.7 million or 6% over the previous year is indicative of the large exploratory and development program being maintained by PanCanadian. Of the total expenditures, some 72% was attributable to our exploration program, 14% to development drilling and the remainder to production facilities and equipment.

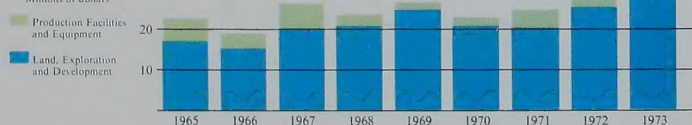
Acquisition and retention of petroleum and natural gas rights accounted for \$4.4 million or 14% of capital expenditures. Geological, geophysical and overhead costs accounted for \$8.7 million or 27% of capital expenditures. Total drilling expenditures of \$14.2 million or 44% of PanCanadian's capital program represented the largest, single category of expenditure. Exploratory drilling costs were \$9.8 million and development drilling costs were \$4.4 million.

Production facilities and equipment expenditures amounted to \$4.7 million or 15% of the 1973 capital program.

Not included in the capital expenditures described above is PanCanadian's \$1.7 million investment in Panarctic Oils Ltd., which brings our total investment in that Company to \$8.4 million at the end of 1973.

CAPITAL EXPENDITURES

Millions of dollars



Land

During 1973, PanCanadian's working interest holdings in petroleum and natural gas rights increased from 14.8 million net acres (20.0 million gross acres) to 19.7 million net acres (45.7 million gross acres). Some 15.4 million net acres of our total 1973 working interest holdings are located in Canada. This compares with approximately 14.0 million net acres of total working interest holdings located in Canada in 1972.

To retain our holdings and acquire additional petroleum and natural gas rights required the expenditure of \$4.4 million during 1973. Additions to holdings in Canada were highlighted by an off-shore farmout agreement of 13 million gross acres on the Nova Scotia shelf. PanCanadian as a

member of a three company exploration group will be required to drill a minimum of four tests during 1974 to earn the Company a 12½% net interest in each of four blocks. Drilling will commence early in 1974 employing the SEDCO H drilling unit for the initial four commitment wells. Subsequent options are available on an additional five blocks.

Major additions to working interest holdings in foreign areas were in Indonesia, the United States, Honduras, Italy and the North Sea. PanCanadian drilled a well offshore northeast Kalimantan, in Indonesia. This initial drilling venture involved a farmin of 5.1 million gross acres in which we earned a net interest of 2.6 million acres.

Capital Expenditures

	1973	1972	% Increase (Decrease)
Exploration and Development			
Land Acquisition and Retention	\$ 4,372,842	\$ 5,919,009	(26.1)
Geological, Geophysical and Overhead	8,759,816	8,156,302	7.4
Exploratory Drilling	9,801,139	8,680,471	12.9
Total Exploratory	22,933,797	22,755,782	0.8
Development Drilling	4,385,015	1,985,007	120.9
	27,318,812	24,740,789	10.4
Production Facilities and Equipment	4,695,385	5,597,153	(16.1)
	32,014,197	30,337,942	5.5
Acquisition of PanCanadian Gas Products Ltd. —			
Petroleum and Natural Gas Interests	11,589,662	—	
Gas Plants and Production Equipment	21,139,614	—	
	32,729,276	—	
	\$64,743,473	\$30,337,942	

Exploration expenditures shown above do not include investment in Panarctic Oils Ltd. — 1973 \$1,705,047, 1972 \$1,811,989.

Acquisitions in New Mexico, South Dakota, Colorado, Kansas, Montana, Utah and Wyoming increased working interest holdings in the United States from 100,000 net acres (200,000 gross acres) to 600,000 net acres (1.4 million gross acres) in 1973. In the Mediterranean area, holdings in Italy increased by 200,000 net acres. During 1973 the Company took a seismic option on 1.4 million gross acres (200,000 net acres) of the Gloria Concession offshore Honduras.

PanCanadian maintained its exploration program in the North Sea during the past year. In the United Kingdom sector we have interests in Blocks 48/18B, 48/19B, 21/18 and 3/30 acquired in 1972. During 1973 we augmented our U.K. holdings with the acquisition of an interest in Blocks 48/23, 4/26 and 4/21. Block 48/23 is located northwest of the giant North Hewett gas field, while Blocks 4/26 and 4/21 are located approximately 100 miles east of the Shetland Islands and north of the large Frigg gas field. In the Netherlands sector of the North Sea, PanCanadian participated in drilling operations which discovered gas in Block Q/7. We are currently awaiting an announcement from the Norwegian Government regarding blocks we have applied for in their sector of the North Sea.

PanCanadian also explored its fee simple lands located in Alberta and Saskatchewan. During 1973, 1.1 million acres of fee simple, and crown lands were farmed out. Of this total 943,000 acres were in Alberta, 102,000 acres in British Columbia and 23,000 acres in Saskatchewan and Manitoba. The Company retains either a working interest or an overriding royalty on all lands farmed out.

CANADIAN ARCTIC ISLANDS



Exploration

PanCanadian continued its exploration in the prospective areas of Canada including the more mature regions of Western Canada. In addition, international exploration was expanded in 1973.

In Canada, exploration continued in the Foothills and Deep Basin areas. Seismic data was acquired in the frontier areas of the Mackenzie Delta and on the East Coast offshore. The Company has recently joined with two other companies in the drilling of four wells off the Canadian East Coast. The first of these wells has been drilled. Activity continued in the Plains area of British Columbia and Alberta with many wells being drilled in the search for gas and oil.

Panarctic Oils Ltd., the industry-government consortium in which PanCanadian has a 9.03% interest continued its drilling program in the Canadian Arctic. Panarctic et al Drake Point D-68, a stratigraphic well, is currently testing the deeper horizons underlying the already successful three productive zones in the Drake Point gas field. The D-68 well is estimated to bottom at 18,000 feet making it the deepest well ever drilled in the Arctic to date.

Internationally, PanCanadian explored in various parts of the United States including, Wyoming, Colorado, Utah, Montana, New Mexico, Texas and the Gulf Coast States. Seismic data was acquired along the East Coast of the United States, in the Gulf of Mexico and in the Gulf of Alaska. Outside of the North American continent exploration data was acquired in Honduras, Peru, Tunisia and in the Mediterranean areas of France, Spain, Italy and Yugoslavia. In Indonesia, interpretation of seismic and geological data in the Celebes Sea, northeast of Kalimantan has resulted in the selection of a location where an offshore well was drilled. Seismic data from the North Sea

covering the United Kingdom, Netherlands and Norwegian sections has been correlated with geological data to evaluate future exploration opportunities.

Drilling

A record gross 739 wells were drilled on Company lands during 1973, an increase of 195 wells over the 544 wells drilled in 1972. Of the total number of wells drilled 341 were working interest wells and 398 wells were drilled in which the Company retained a royalty interest.

The significant increase in working interest wells is attributed to the Company's shallow gas drilling program. Since the inception of this program a total of 176 wells were drilled on Company lands in the southeastern shallow gas region of Alberta.

Of the total number of wells, 412 were drilled at no cost to the Company. This includes 14 working interest wells and all of the 398 royalty interest wells.

A total of 556 wells were drilled successfully accounting for a total success ratio of 75%. Successful completions consisted of 75 oil wells, 477 gas wells, and 4 wells completed as facility wells.

The successful working interest wells resulted in 34 oil wells, 233 gas wells and 3 facility wells. In addition, 15 of the oil wells and 57 of the gas wells were subject to a royalty interest.

The successful royalty interest wells resulted in 41 oil wells, 244 gas wells and 1 facility well. Of these, 13 oil and 36 gas wells were convertible to a working interest.





Drilling Record

Exploratory	Oil		Gas		Dry		Facility		Total		Gross Footage
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
Alberta	6	3.525	18	10.189	32	19.957	—	—	56	33.671	238,835
— Shallow Gas Project	—	—	72	67.551	6	6.000	—	—	78	73.551	163,528
British Columbia	—	—	2	1.125	2	.153	—	—	4	1.278	28,372
Northwest Territories	—	—	—	—	1	.350	—	—	1	.350	14,000
Arctic Islands	—	—	—	—	2	.220	—	—	2	.220	14,249
North Dakota	—	—	—	—	1	.350	—	—	1	.350	4,596
Wyoming	2	.407	—	—	4	1.099	—	—	6	1.506	51,531
Mississippi	—	—	—	—	1	.125	—	—	1	.125	21,754
Alabama	—	—	—	—	3	.196	—	—	3	.196	50,945
Louisiana	—	—	—	—	2	.250	—	—	2	.250	32,957
Italy	—	—	—	—	1	.375	—	—	1	.375	8,544
North Sea - U.K.	—	—	—	—	1	.045	—	—	1	.045	5,957
- Holland*	—	—	—	—	1	.050	—	—	1	.050	8,531
	8	3.932	92	78.865	57	29.170	—	—	157	111.967	643,799

Development

Alberta	25	15.909	43	10.247	12	8.908	3	1.376	83	36.440	251,401
— Shallow Gas Project	—	—	97	80.428	1	1.000	—	—	98	81.428	172,342
British Columbia	—	—	—	—	1	.500	—	—	1	.500	2,861
Texas	1	.353	—	—	—	—	—	—	1	.353	6,950
New Mexico	—	—	1	.134	—	—	—	—	1	.134	10,874
	26	16.262	141	90.809	14	10.408	3	1.376	184	118.855	444,428

Total

Alberta	31	19.434	61	20.436	44	28.865	3	1.376	139	70.111	490,236
— Shallow Gas Project	—	—	169	147.979	7	7.000	—	—	176	154.979	335,870
British Columbia	—	—	2	1.125	3	.653	—	—	5	1.778	31,233
Northwest Territories	—	—	—	—	1	.350	—	—	1	.350	14,000
Arctic Islands	—	—	—	—	2	.220	—	—	2	.220	14,249
North Dakota	—	—	—	—	1	.350	—	—	1	.350	4,596
Wyoming	2	.407	—	—	4	1.099	—	—	6	1.506	51,531
Mississippi	—	—	—	—	1	.125	—	—	1	.125	21,754
Alabama	—	—	—	—	3	.196	—	—	3	.196	50,945
Louisiana	—	—	—	—	2	.250	—	—	2	.250	32,957
Texas	1	.353	—	—	—	—	—	—	1	.353	6,950
New Mexico	—	—	1	.134	—	—	—	—	1	.134	10,874
Italy	—	—	—	—	1	.375	—	—	1	.375	8,544
North Sea - U.K.	—	—	—	—	1	.045	—	—	1	.045	5,957
- Holland*	—	—	—	—	1	.050	—	—	1	.050	8,531
	34	20.194	233	169.674	71	39.578	3	1.376	341	230.822	1,088,227

Holland* Block Q/7; Expendable Well Discovered Gas.

Exploratory

Of the 341 working interest wells, 157 were exploratory resulting in 8 oil wells and 92 gas wells.

Two of the eight successful oil wells were drilled in Wyoming. One of these in which the Company has a 31.25% interest had initial production of approximately 500 barrels per day. An offset well completed in 1974 is currently producing at a rate of 465 barrels of oil per day. The remaining 6 oil wells were all completed in Alberta — one in northern Alberta and the remaining 5 in southern Alberta.

Seventy-two of the 92 exploratory gas successes were drilled as shallow gas exploratory tests in the Countess-Bantry area of southeastern Alberta. Two successful gas wells were drilled in British Columbia and the remaining eighteen wells were drilled in Alberta primarily in the southeastern part of the Province.

Development

The Company participated in the drilling of 184 development wells. Of this total, 26 oil wells and 141 gas wells were completed successfully. An additional 3 wells were drilled as facility wells.

Twenty-one of the successful oil wells were drilled in the Countess-Taber area of southeastern Alberta and four oil wells were drilled in central Alberta. A successful oil well was also drilled in Ochiltree County in Texas in which PanCanadian may elect to participate.

Ninety-seven of the 141 successful gas wells were completed in the Alderson-Medicine Hat shallow gas area of southeastern Alberta, 43 were drilled in other areas of Alberta and 1 development gas well was completed in New Mexico.





Production

Crude Oil

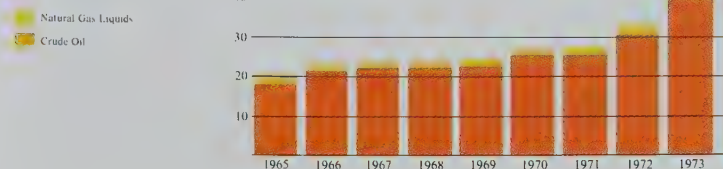
The Company's 1973 net crude oil production increased by almost 9,500 barrels per day to a record average of 40,574 barrels per day. This 30% increase over 1972 has seen crude oil production almost double in the past five years.

Secondary recovery continued to be the most significant factor for production increase in most Company operated areas. The Countess water-flood project and development drilling accounted for increased production in that area of 4,851 barrels per day or the equivalent of a 95% increase over the previous year. The Lathom area was also brought under water flooding during the year and resulted in a 167% production increase over 1972 to 1,760 barrels daily.

Other areas of noteable increase include Wizard Lake, Fenn Big Valley, Westeros and Bonnie Glen. Improved secondary recovery, together with improved facilities and increased market demand allowed Wizard Lake production to escalate approximately 54% or an additional 1,438 barrels daily for Company production from that area. Production was up by 409 barrels per day in the Westeros area, 339 barrels per day in the Bonnie Glen area and 315 barrels per day in the Fenn Big Valley area.

Alberta continued to be PanCanadian's most important area of production with 33,011 barrels per day or 81% of total Company crude production. During 1972, Company crude production from Alberta represented 73% of total production.

NET CRUDE OIL
AND NATURAL GAS
LIQUIDS PRODUCTION
Thousands of barrels per day



NET CRUDE OIL PRODUCTION

Barrels Daily	1973	1972
ALBERTA		
Countess	9,959	5,108
Wizard Lake	4,094	2,656
Fenn Big Valley	1,791	1,476
Lathom	1,760	658
Taber	1,691	1,411
Westerose	1,546	1,137
Bonnie Glen	1,266	927
Bantry	1,054	846
Horsefly	860	874
Hussar	719	674
Pembina	685	504
Gilby	663	618
Redwater	531	390
Bellshill Lake	466	285
Leduc	457	417
Parflesh	438	519
Black	390	370
Meekwap	388	227
Provost	307	254
Bashaw	303	167
Joarcam	292	256
Medicine River	288	250
Wintering Hills	284	272
Chauvin	272	237
Alderson	270	171
Other	2,237	1,966
	33,011	22,670
SASKATCHEWAN		
Weyburn	5,005	5,404
Flat Lake	570	619
Handsworth	363	368
Lake Alma	303	418
Other	1,164	1,464
	7,405	8,273
MANITOBA		
	82	91
UNITED STATES		
	76	62
	<u>40,574</u>	<u>31,096</u>

Natural Gas

As with crude oil and natural gas liquids production, PanCanadian also continues to rank among the top natural gas producers in Canada. During 1973, annual sales of almost 77 billion cubic feet represented an increase of 5% over the previous year. Production averaged 210.2 million cubic feet per day in 1973 compared to 199.5 million cubic feet per day in 1972. During the past six years, PanCanadian has more than doubled its output of natural gas and it is expected that our shallow gas exploratory and development program in Southern Alberta will further substantially increase current production rates.

Generally, most major producing areas maintained previous years production. The largest production increments were recorded at Medicine Hat, Countess, Ferrybank, Calgary and Bantry areas of Alberta. All these areas had production increases in excess of 1 million cubic feet per day. The Medicine Hat area was the largest area of increase, recording 1973 sales of 5.6 million cubic feet per day compared to 1.1 million cubic feet per day in 1972.

NET NATURAL GAS PRODUCTION

Millions of Cubic Feet Daily	1973	1972
ALBERTA		
Countess	22.0	20.2
Jumping Pound	20.6	23.8
Calgary	18.3	16.7
Alderson	15.7	15.4
Hussar	14.4	14.5
Westerose South	11.0	11.1
Redland	10.5	10.0
Wayne	7.5	8.1
Wintering Hills	7.5	7.7
Ferrybank	6.0	4.3
Medicine Hat	5.6	1.1
Gilby	5.0	4.3
Ukalta	4.3	4.3
Rosebud	3.7	2.8
Bantry	3.6	2.2
Nevis	3.2	2.5
South Carbon	2.8	3.0
Homeglen Rimbey	2.5	2.7
Lathom	2.5	1.4
Other	38.8	37.7
	<u>205.5</u>	<u>193.8</u>
UNITED STATES	4.7	5.7
	<u>210.2</u>	<u>199.5</u>

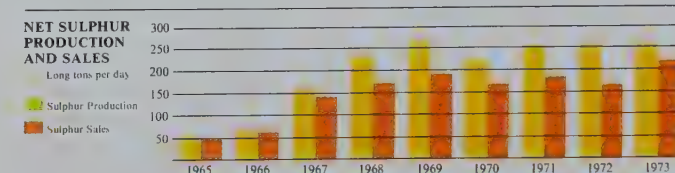
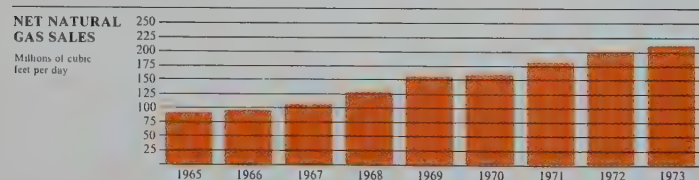
NET SULPHUR PRODUCTION

Long Tons Daily	1973	1972
ALBERTA		
Calgary	130	121
Jumping Pound	60	69
East Crossfield	51	58
Wildcat Hills	5	3
Westerose	5	5
Nevis	5	4
Wimborne	4	1
Homeglen Rimbey	2	2
Other	1	4
	<u>263</u>	<u>267</u>

Natural Gas Liquids

During 1973, PanCanadian's production of natural gas liquids increased by 2.6 million barrels. Liquids production in 1973 averaged 10,012 barrels per day compared to 2,899 barrels per day in 1972.

This increase was accounted for from PanCanadian's wholly owned subsidiary, PanCanadian Gas Products Ltd.



Gas Products has a 50% interest in a natural gas liquids extraction plant at Empress, Alberta. In 1973, Gas Products' share of production amounted to 3.3 million barrels while sales volume of 2.6 million barrels included over 700,000 barrels of propane exported to the United States under long term export licence.

NET NATURAL GAS LIQUIDS PRODUCTION

Barrels Daily	1973	1972
ALBERTA		
Empress Gas Plant	7,065	—
Westerose	890	880
Jumping Pound	443	516
Calgary	371	323
Hussar	256	257
Homeglen Rimbey	159	163
Other	809	742
	<u>9,993</u>	<u>2,881</u>
UNITED STATES	19	18
	<u>10,012</u>	<u>2,899</u>

Reserves

During 1973 PanCanadian was successful in replacing some 42% of the oil and natural gas liquids produced. Total proven and probable reserves of oil and liquids now amount to 206.8 million barrels and at 1973 production rates represents a reserve life index of 13 years.

Proven developed and probable net reserves of natural gas increased by 598 billion cubic feet or 37% to 2,225 billion cubic feet. At 1973 production

Reserves (Proven Developed and Probable)

Oil and Natural Gas Liquids (bbls.)	1973	1972
Remaining Reserves at January 1 ..	215,947,448	218,213,460
Reserves Added	6,692,836	10,175,869
	<u>222,640,284</u>	<u>228,389,329</u>
Production	15,885,135	12,441,881
Remaining Reserves at December 31	<u>206,755,149</u>	<u>215,947,448</u>
Natural Gas (MMcf)		
Remaining Reserves at January 1 ..	1,626,962	1,626,873
Reserves Added	674,666	73,114
	<u>2,301,628</u>	<u>1,699,987</u>
Production	76,727	73,025
Remaining Reserves at December 31	<u>2,224,901</u>	<u>1,626,962</u>
Sulphur (l.t.)		
Remaining Reserves at January 1 ..	3,871,280	3,959,940
Reserves Added	(202,308)	8,970
	<u>3,668,972</u>	<u>3,968,910</u>
Production	96,010	97,630
Remaining Reserves at December 31	<u>3,572,962</u>	<u>3,871,280</u>

rates this reserve represents a life index of 29 years. The success of the shallow gas development program in Alberta was the major contributor to the increase in gas reserves. A substantial portion of this increase is committed under existing gas contracts.

Proven Developed and Probable net reserves (after royalties) were evaluated by Company engineers. "Proven Developed Reserves" are those reserves which can be produced from existing wells or facilities; "Probable Reserves" are those reserves estimated to be commercially recoverable as a result of the beneficial effects of future installation of secondary recovery methods or future improvements in the existing recovery mechanism.



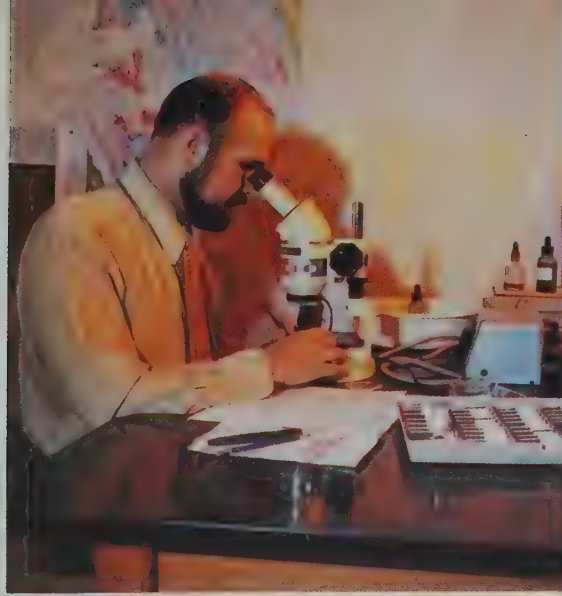
Employees

The staff of PanCanadian increased in 1973 from 428 to 489 employees. Salaries and wages increased to \$5.4 million during the year compared with \$4.7 million in 1972.

In order to enable our personnel to keep up with technological advances, PanCanadian has provided its staff with Training and Development and Education Assistance programs. The programs were extended to 102 employees to enable them to improve their technical, professional and managerial skills.

The Company also made financial contributions to three Alberta and Saskatchewan universities and the Southern Alberta Institute of Technology.

Through the Employee Dependent Scholarship program five new scholarships with a value of \$500 each were awarded to children of employees. This, together with the continuing scholarships awarded previously, represents financial assistance to dependents of employees totalling \$8,500.



Special Projects

Ammonia Complex

On January 31, 1974 PanCanadian and Tyler Corporation of Dallas, Texas, announced preliminary plans for construction of an ammonia complex in southern Alberta. This natural gas based nitrogen complex estimated to cost about \$45 million will require more than two years to complete. Scheduled for startup in 1976 the plant will produce more than 1000 tons per day of anhydrous ammonia.

The complex will be owned 60% by PanCanadian and 40% by Tyler. Natural gas, the feedstock required to supply the plant will be provided from PanCanadian's proven reserves. Tyler will be responsible for marketing the entire output. The anhydrous ammonia produced is a basic chemical used in the manufacture of fertilizers and various chemical products. The proposed ammonia plant will require approximately 40 to 50 full time employees.

PanCanadian is continually investigating ways and means of upgrading raw materials near the point of production. Employing natural gas as the raw material in an ammonia complex in Alberta and then marketing the resulting product will encourage further industrial development and provide employment opportunities for Albertans.

Cochin Pipe Line

PanCanadian Gas Products Ltd., a wholly owned subsidiary, has an option to purchase a 20% interest in a proposed \$200 million dual pipeline system. The 10 inch diameter line would transport ethylene from a petro-chemical plant in Alberta to Sarnia, Ontario. Ethane and heavier liquids would be transported through a 12 inch pipeline to Windsor, Ontario and Green Springs, Ohio. A

hearing was held in Ottawa in 1973 on the application to construct the line. To date, no decision has been announced by the National Energy Board.

Coal

During the past year the escalation of domestic and international crude oil prices have caused coal to become an attractive alternate energy source. From a power generating and gasification perspective, coal is currently experiencing rapid development.

The most recent reserves estimate of recoverable strip coal contained in Company properties in Alberta are 100 million tons in the Castor area and 20 million tons in the Brooks coal region. Preliminary plans are actively being formulated for the Castor area with two other companies for a potential gasification project. The heating value of the good quality subbituminous coal in these two regions ranges from 8,000 to 8,300 BTU's per pound.

PanCanadian recognizes the vast potential of coal in Alberta and views these reserves as an asset which will strengthen its long-term energy outlook.



WORKING INTEREST HOLDINGS IN PETROLEUM AND NATURAL GAS RIGHTS

	At December 31, 1973		At December 31, 1972	
	Gross Acres	Net Acres	Gross Acres	Net Acres
Alberta	8,423,340	6,287,689	7,251,458	6,482,343
British Columbia	1,025,782	708,812	875,665	720,989
Saskatchewan	3,118,336	2,427,690	2,370,648	2,339,880
Manitoba	262,569	258,316	267,763	263,510
Quebec	167,750	50,325	251,250	75,375
Canada Offshore, Nova Scotia (2) ...	15,425,761	1,813,761	—	—
Northwest Territories and Yukon ...	4,678,340	3,655,485	4,930,806	3,851,222
Arctic Islands (1)	1,686,740	235,135	1,686,740	235,135
United States (3)	1,395,737	568,321	226,868	74,416
Honduras (2)	1,362,628	170,329	—	—
North Sea (4)	564,156	36,349	193,944	14,072
Italy	2,125,098	814,833	1,666,355	622,794
Tunisia	315,223	118,208	315,223	118,208
Indonesia	5,119,936	2,559,968	—	—
TOTAL	45,671,396	19,705,221	20,036,720	14,797,944

Notes:

- (1) Does not include Company's interest in Panarctic Oils Ltd.
- (2) Option acreage not yet earned.
- (3) Contains 798,900 gross acres in Utah and 307,200 gross acres in Montana under agreement but not yet earned.
- (4) Contains 162,300 gross acres under agreement not yet earned.



Financial

For the fifth successive year, PanCanadian achieved record levels of gross income, funds from operations and net income. Substantial increases in the production of crude oil and price increases during the first half of the year contributed to attaining these levels. In addition, the operations of PanCanadian Gas Products Ltd., acquired in 1973 were reflected for the eleven months in the consolidated earnings.

Gross income of \$75.4 million recorded a \$28.1 million or 59% increase over the \$47.3 million recorded in 1972. Crude oil operating revenue accounted for 62% of total operating revenues, relatively unchanged from 1972. However, natural gas liquids now account for 15% of operating revenues compared to 5% the previous year and natural gas 17%, compared to a 24% share of operating revenues last year.

The approximate average prices PanCanadian is currently receiving for its products are: crude oil \$3.34 per barrel, natural gas liquids \$4.77 per barrel, natural gas \$0.203 per thousand cubic feet and sulphur \$6.16 per long ton.

Total expenses increased from \$26.3 million in 1972 to \$42.6 million in 1973. Operating expenses

which accounted for \$6.5 million of the \$16.3 million increase in expenses represented 17% of operating revenue. During 1972, operating expenses amounted to 14% of operating revenue. Interest expense accounted for \$4.5 million of the increased expenses reflecting a full years' charges on the sinking fund debentures issued in 1972. Depreciation and depletion charges increased by \$4.8 million in 1973 again reflecting the rapidly increasing expenses associated with the exploration for new reserves. The remaining \$0.5 million of increased expenses is accounted for by administrative costs.

Net income, after provision of \$8.5 million for both deferred income taxes and current income taxes, was \$24.3 million or \$0.78 per share, 59% higher than the \$0.49 per share recorded in 1972.

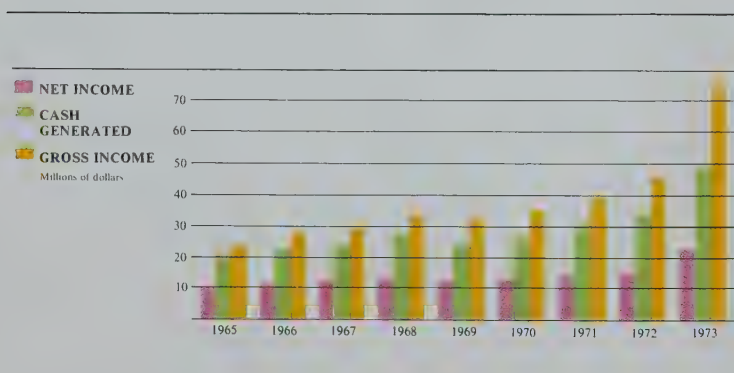
Funds from operations increased 43% to \$49.9 million and \$1.60 per share in 1973. This compares with funds from operations of \$35.0 million and \$1.12 per share the previous year.

Total application of funds during 1973 was \$96.7 million compared with \$54.2 million in 1972.

Of this total, petroleum, natural gas and mineral properties accounted for \$38.9 million; \$25.8 million for plant, production and other equipment; \$1.7 million investment in Panarctic Oils Ltd.; instalments on and change in current portion of bank loans and debenture discount issue expenses totalled \$5.7 million; gas processing contracts accounted for \$12.1 million; dividends paid in 1973 were \$12.8 million or \$0.41 per share; and other items amounted to (\$.3) million.

Total capitalization at December 31, amounted to \$282.5 million an increase of \$40.4 million over 1972. Long term debt outstanding accounted for 33% while deferred credits and shareholders' equity accounted for 67% of total capitalization.

Effective January 1, 1974 the assets of our wholly-owned subsidiary, P. C. Oil and Gas Limited were transferred and consolidated under PanCanadian Petroleum Limited. The winding up of the Company created efficiencies in accounting methods. P. C. Oil and Gas formerly held all the Canadian oil and gas properties acquired from Mana Resources Inc., in 1971.



Operating Revenues

	1973	%	1972	%	% Increase From 1972
Crude Oil	\$45,569,408	62.3	\$28,288,751	62.1	61.1
Natural Gas Liquids	2,699,656	3.7	2,035,493	4.5	32.6
Empress Plant	7,949,942	10.8	—	—	—
Natural Gas	12,566,857	17.2	11,095,595	24.3	13.3
Sulphur	429,273	0.6	210,599	0.5	103.8
	<u>69,215,136</u>	<u>94.6</u>	<u>41,630,438</u>	<u>91.4</u>	<u>66.3</u>
Lease Rentals	3,960,915	5.4	3,932,765	8.6	0.7
	<u>\$73,176,051</u>	<u>100.0</u>	<u>\$45,563,203</u>	<u>100.0</u>	<u>60.6</u>

Consolidated Statement of Income and Retained Income

For The Year Ended December 31, 1973



	1973	1972
Income:		
Operating revenue	\$73,176,051	\$45,563,203
Interest income from affiliated company	1,322,448	1,037,453
Miscellaneous	875,990	670,432
	<u>75,374,489</u>	<u>47,271,088</u>
Expenses:		
Operating	12,647,651	6,174,673
Administrative	2,786,917	2,260,086
Interest	8,388,821	3,904,079
Depreciation and amortization (Note 1)	4,913,923	3,393,774
Depletion (Note 1)	13,878,306	10,598,194
	<u>42,615,618</u>	<u>26,330,806</u>
Income before income taxes	32,758,871	20,940,282
Provision for income taxes (Note 3):		
Current	1,613,113	—
Deferred	6,845,788	5,696,079
	<u>8,458,901</u>	<u>5,696,079</u>
Net income for the year	24,299,970	15,244,203
Retained income at beginning of year	44,808,418	39,546,455
	<u>69,108,388</u>	<u>54,790,658</u>
Dividends (\$.41 per share in 1973, 1972 — \$.32)	12,795,253	9,982,240
Retained income at end of year	<u>\$56,313,135</u>	<u>\$44,808,418</u>
Earnings per share	\$.78	\$.49

Consolidated Balance Sheet

December 31, 1973



Assets

	1973	1972
Current assets:		
Cash	\$ 286,566	\$ 980,608
Term deposits with affiliated company	14,448,050	35,885,728
Accounts receivable	11,682,340	7,971,049
Inventories, at average cost —		
Products	2,536,865	427,290
Materials	373,352	454,835
	<u>29,327,173</u>	<u>45,719,510</u>
Property, plant and equipment, at cost:		
Petroleum, natural gas and mineral properties (Note 1)	280,593,859	241,159,909
Less: Accumulated depletion	(73,674,453)	(59,270,671)
Plant, production and other equipment	69,038,630	42,710,135
Less: Accumulated depreciation	(26,602,376)	(21,487,532)
	<u>249,355,660</u>	<u>203,111,841</u>
Investments, at cost:		
Panarctic Oils Ltd.	8,382,052	6,677,005
Other	824,421	992,590
	<u>9,206,473</u>	<u>7,669,595</u>
Other assets:		
Drilling, reservation and other deposits	136,530	233,062
Unamortized debenture discount and issue expenses (Note 4)	1,127,005	1,155,753
Unamortized gas processing contracts (Note 1)	11,772,216	—
	<u>13,035,751</u>	<u>1,388,815</u>
	<u><u>\$300,925,057</u></u>	<u><u>\$257,889,761</u></u>

Liabilities

	1973	1972
Current liabilities:		
Accounts payable and accrued liabilities	\$ 11,116,502	\$ 12,802,568
Due to affiliated company	40,869	104,663
Income taxes payable	1,613,113	—
Current portion of long-term debt	<u>5,656,666</u>	<u>2,916,666</u>
	18,427,150	15,823,897
Long-term debt (Note 4)	93,467,842	71,979,167
Deferred credits:		
Deferred rentals	325,801	300,097
Deferred income taxes (Note 3)	<u>59,666,861</u>	<u>52,385,507</u>
	59,992,662	52,685,604
Shareholders' equity (Note 5):		
Capital stock:		
Authorized —		
50,000,000 shares of \$1 par value		
Issued —		
31,214,990 shares of which 9,005 shares		
were issued in 1973	31,214,990	31,205,985
Paid in surplus	41,509,278	41,386,690
Retained income	<u>56,313,135</u>	<u>44,808,418</u>
	129,037,403	117,401,093

APPROVED ON BEHALF OF THE BOARD:

Robert W. Campbell
Director

Jim Taylor
Director

<u>\$300,925,057</u>	<u>\$257,889,761</u>
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Consolidated Statement of Changes in Financial Position

For The Year Ended December 31, 1973



	1973	1972
Source of working capital:		
Net income for the year	\$24,299,970	\$15,244,203
Expenses not requiring a current outlay of funds —		
Depreciation and amortization	4,913,923	3,393,774
Depletion	13,878,306	10,598,194
Deferred income taxes	6,845,788	5,696,079
Amortization of debenture discount and issue expenses	62,277	32,479
Income from affiliate	(128,541)	—
Funds from operations	49,871,723	34,964,729
Decrease in performance deposits (Note 2)	96,532	774,056
Issue of debentures	—	50,000,000
Long-term bank loans (Note 2)	27,145,341	—
Issue of shares	131,593	112,237
Deferred income tax credit (Note 2)	435,565	—
	<u>77,680,754</u>	<u>85,851,022</u>
Application of working capital:		
Petroleum, natural gas and mineral properties (Note 2)	38,908,474	24,740,789
Plant, production and other equipment (Note 2)	25,834,999	5,597,153
	<u>64,743,473</u>	<u>30,337,942</u>
Investment in Panarctic Oils Ltd.	1,705,047	1,811,989
Increase (decrease) in other investments	(296,710)	1,230
Debenture discount and issue expenses	33,529	1,188,232
Gas processing contracts (Note 2)	12,064,790	—
Retirement of bank loan	—	7,810,629
Instalments on and change in current portion of bank loans	5,656,666	2,916,667
Decrease (increase) in deferred rentals	(25,704)	112,704
Dividends	12,795,253	9,982,240
	<u>96,676,344</u>	<u>54,161,633</u>
Increase (decrease) in working capital	(18,995,590)	31,689,389
Working capital (deficiency) at beginning of year	29,895,613	(1,793,776)
Working capital at end of year	<u>\$10,900,023</u>	<u>\$29,895,613</u>

Notes to Consolidated Financial Statements

December 31, 1973



Note 1 — Accounting practices:

The consolidated financial statements include the accounts of PanCanadian Petroleum Limited and its subsidiaries, all of which are wholly-owned.

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis:

Current assets and liabilities — at the rate of exchange December 31, 1973

Other assets and liabilities — at historical rates of exchange

Income and expenses — at monthly rates of exchange except provisions for depreciation and amortization which are translated on the same basis as the related assets.

The companies follow the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and the development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, and overhead expenses related to exploration activities. These costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Depreciation of plant, production and other equipment is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets.

Unamortized gas processing contracts are being charged to income on a straight line basis over the life of the contracts which is forty years.

Note 2 — Acquisition of PanCanadian Gas Products Ltd.:

On January 31, 1973 the Company acquired all of the outstanding shares of PanCanadian Gas Products Ltd. (formerly Trans Canada Petroleums Limited) for a cash consideration of \$32,091,602. The net assets of the subsidiary at the date of acquisition were as follows:

Working capital	\$ 3,815,636
Deposits on exploration projects	62,806
Petroleum and natural gas interests	11,589,662
Gas plant and production equipment	21,139,614
Gas processing contracts	12,064,790
	<hr/>
	48,672,508
Less:	
Bank loans	16,145,341
Deferred income tax credit	435,565
	<hr/>
	<u>\$32,091,602</u>

Note 3 — Deferred income taxes:

The companies follow the tax allocation basis of accounting for income taxes. For timing differences relating to exploration and drilling expenditures, the companies have consistently followed the practice of providing deferred taxes at an estimated rate, although it is the general practice in the oil and gas industry in Canada to make no provision for taxes so deferred. If current effective rates had been used, the provision for deferred taxes for 1973 would have been \$3,000,000 greater (1972 — \$2,700,000) and the cumulative total to December 31, 1973 would have been increased by \$21,700,000.

At the instance of Canadian provincial securities commissions, representatives of the oil and gas industry in Canada have undertaken a study to determine whether or not income tax allocation accounting is appropriate for exploration and development expenditures including intangible acquisition costs. The commissions have indicated that unless the industry can justify departure from the recommendations of The Canadian Institute of Chartered Accountants in this regard, oil and gas companies should be prepared to adopt income tax allocation accounting for such costs in their 1974 financial statements.

Note 4 — Long-term debt:

Details of long-term debt outstanding at December 31, 1973 and at December 31, 1972 are set forth hereunder:

	1973	1972
Bank loans bearing interest at varying rates above prime bank interest rates:		
Due in quarterly instalments of \$416,667	\$ 5,416,667	\$ 7,083,333
Due in quarterly instalments of \$312,500	6,562,500	7,812,500
Due March 12, 1975	10,000,000	10,000,000
Due March 31, 1983	11,000,000	—
Due in annual instalments of \$2,600,000 to 1975 and \$3,600,000 thereafter	16,000,000	—
Production loan due in quarterly instalments of \$35,000	145,341	—
	<u>49,124,508</u>	<u>24,895,833</u>
Less: Current portion	5,656,666	2,916,666
	<u>43,467,842</u>	<u>21,979,167</u>
8 $\frac{1}{8}$ % secured debentures due March 1, 1992, sinking fund payments 1978 - 1991, secured by a first mortgage upon certain producing properties	25,000,000	25,000,000
8 $\frac{3}{4}$ % secured debentures due November 1, 1992, sinking fund payments 1978 - 1991, secured by a first mortgage upon certain producing properties	25,000,000	25,000,000
	<u>\$93,467,842</u>	<u>\$71,979,167</u>

The Company has agreed that, without the consent of the bankers, the assets of the Company and its subsidiaries will not be encumbered nor will any debt be created that would rank prior to or pari passu with the bank loans.

The annual maturities for long-term debt for each of the five years ending December 31, are as follows:

1974 — \$ 5,656,666 1975 — \$15,522,007 1976 — \$ 6,516,666 1977 — \$ 5,266,667 1978 — \$ 6,100,000



Auditors' Report

Unamortized debenture discount and issue expenses are being charged to income on a straight line basis over the terms of the debenture issues.

Note 5 — Capital stock and paid in surplus:

The changes in capital stock and paid in surplus for the year ended December 31, 1973 are summarized hereunder:

	Number of shares	Capital stock	Paid in surplus
Balance, December 31, 1972	31,205,985	\$31,205,985	\$41,386,690
Shares issued for cash re employee profit sharing plan	9,005	9,005	122,588
Balance, December 31, 1973	<u>31,214,990</u>	<u>\$31,214,990</u>	<u>\$41,509,278</u>

Note 6 — Statutory information:

During 1973 there were thirteen directors (including one past director) and eleven officers (as defined by the Canada Corporation Act) of whom four were also directors.

Officers' remuneration and directors' fees for 1973 amounted to \$335,850 and \$25,342 respectively, (1972 — \$278,761 and \$29,008) none of which was paid by subsidiaries.

Note 7 — Subsequent event:

On January 29, 1974 the Company entered into an agreement with Tyler Ammonia Alberta Ltd. to construct an ammonia plant which will be owned 60% by the Company and 40% by Tyler. It is estimated that the plant will cost \$45,000,000 and will be completed late in 1976. Financing for the Company's share of this project is presently being negotiated. The commitment to build the plant is conditional upon the fulfillment of certain conditions by each company by May 1, 1974.

To the Shareholders of
PanCanadian Petroleum Limited:

We have examined the consolidated balance sheet of PanCanadian Petroleum Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

February 21, 1974.

Nine Year Statistical Review

Dollar amounts are in thousands with the exception of per share figures.

Financial	1973	1972	1971	1970	1969	1968	1967	1966	1965
Gross Income	\$75,374	\$47,271	\$39,432	\$34,928	\$33,247	\$33,377	\$29,584	\$26,796	\$23,747
Cash Generated	49,872	34,965	30,598	27,143	25,854	27,402	24,288	22,348	20,034
Per Share	1.60	1.12	1.00	0.89	0.85	0.90	0.80	0.74	0.68
Net Income	24,300	15,244	14,497	12,635	12,124	13,578	12,564	10,742	10,308
Per Share	0.78	0.49	0.48	0.41	0.40	0.45	0.41	0.35	0.34
Cash Dividends	12,795	9,982	9,560	8,830	9,350	8,117	6,743	5,516	3,980
Per Share	0.41	0.32	0.31	0.29	0.31	0.27	0.22	0.18	0.13
Working Capital (Deficiency)	10,900	29,896	(1,794)	(3,449)	(3,471)	(9,763)	(5,196)	2,938	5,420
Long Term Debt	93,468	71,979	32,706	22,765	17,810	400	—	—	—
Deferred Income Taxes	59,667	52,386	46,689	41,156	36,362	31,353	25,604	20,242	16,443
Capital Expenditures									
Exploration	22,934	22,756	19,349	18,262	23,067	18,757	16,574	12,789	8,858
Development	4,385	1,985	1,129	844	1,537	2,508	3,433	3,351	9,522
Production Facilities & Equipment	4,695	5,597	4,373	3,297	2,022	2,552	6,388	3,507	3,635
Total	32,014	30,338	24,851	22,403	26,626	23,817	26,395	19,647	22,015
Investment in Panarctic Oils Ltd. . .	1,705	1,812	1,573	1,451	1,088	753	—	—	—
Number of Shares Outstanding	31,214,990	31,205,985	31,197,972	30,456,478	30,452,145	30,451,710	30,450,321	30,311,654	30,288,324
Number of Shareholders	7,840	7,881	8,010	8,374	7,727	7,644	6,889	6,443	5,728

Operations

Production — Net Oil and Natural Gas Liquids (bbls.)	18,463,885	12,441,881	10,413,083	9,703,787	8,884,316	8,699,602	8,546,597	8,442,107	7,378,694
Daily Average	50,586	33,995	28,530	26,586	24,341	23,770	23,416	23,129	20,216
Natural Gas (Mcf.)	76,726,824	73,025,193	65,451,962	59,047,895	57,151,781	46,316,019	38,747,585	35,621,847	34,565,140
Daily Average	210,210	199,522	179,320	161,775	156,581	126,546	106,158	97,594	94,699
Sulphur (l.t.)	96,010	97,630	92,422	81,805	96,496	85,877	59,673	27,050	18,738
Daily Average	263	267	253	224	265	235	163	74	51
Properties — Working Interest Petroleum and Natural Gas									
Gross Acreage	45,671,396	20,036,720	18,697,343	23,216,601	27,603,614	21,670,174	18,989,267	17,082,737	15,810,701
Net Acreage	19,705,221	14,797,944	14,930,372	16,768,363	20,324,109	17,707,530	15,138,216	13,550,007	13,029,094
Wells — Net									
Oil	467.53	444.47	447.15	425.70	428.84	411.52	412.99	404.99	290.40
Gas	574.91	367.06	323.43	276.92	266.12	259.80	248.02	215.11	199.85
Number of Employees	489	428	412	383	374	385	363	348	323

Corporate

Officers

Robert W. Campbell
Chairman of the Board
and Chief Executive Officer

J. M. Taylor
President

M. C. McKinnon
Executive Vice President

Ian D. Sinclair, Q.C.
Vice President

A. W. Groll
Vice President — Production

W. F. Mugler
Vice President — Land

M. A. Rogers
Vice President — Exploration

C. H. Stevens
Vice President and Comptroller

V. B. Watson
Treasurer and Assistant Comptroller

George E. Little
Corporate Secretary

C. Millar
Assistant Secretary

Subsidiary and Affiliate Companies

Wholly Owned

Banner Alaska Limited
Blackfoot Pipelines Ltd.
Canadian Pacific Oil and Gas of Canada Limited
Canadian Pacific Oil and Gas Nederland BV.
Canadian Pacific Oil and Gas Norway A/S
PanCanadian Gas Products Ltd. (acquired 1973)
PanCanadian Petroleum Company
PanCanadian Petroleum (Italy) Inc.
PanCanadian Petroleum (U.K.) Limited

Other

Minerals Ltd. — 50%
Panarctic Oils Ltd. — 9.03%

PanCanadian Petroleum Limited publishes a supplementary report entitled "Financial and Operating Information". The report contains more detailed information than it is possible to include in the Annual Report and is mainly provided for the use of security analysts. Any shareholder requiring a copy may obtain one by directing a request to the Supervisor Economics Unit.

Shares Listed

Calgary Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

Registrar and Transfer Agent

Guaranty Trust Company of Canada —
Calgary, Montreal, Toronto, Vancouver

Banker

The Royal Bank of Canada

Auditors

Price Waterhouse & Co.
Chartered Accountants
Calgary, Alberta

PanCanadian Petroleum Limited

P. O. Box 2850
Calgary, Alberta, Canada
T2P 2S5
Telephone: (403) 267-8110

AR14

PanCanadian
Can. corp

File

INTERIM REPORT

For the Six Months Ended
June 30, 1973

PanCanadian Petroleum Limited

ALBERTA - CALGARY

PanCanadian Petroleum Limited

P.O. Box 2850

Calgary, Alberta

T2P 2S5

PanCanadian Petroleum Limited

and Subsidiaries

TO THE SHAREHOLDERS:

PanCanadian's management is pleased to present the financial and operating results of your Company for the first half of 1973.

FIRST HALF COMPARATIVE HIGHLIGHTS

FINANCIAL

— thousands of dollars

	1973	1972	Percent Increase
Gross revenue	\$35,668	\$22,943	55%
Funds from operations . .	24,241	17,225	41%
Per share	78¢	55¢	
Net income	10,896	7,939	37%
Per share	35¢	25¢	

PRODUCTION

— net daily average

Oil and natural gas liquids—bbls.	51,013	30,272
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During the first half, 199 wells were successfully completed on Company lands of which 168 were gas wells and 31 were oil wells.

Exploratory drilling on the Company's acreage in southern Alberta during the second quarter of 1973 resulted in oil and gas discoveries in the Wintering Hills, Countess and Alderson areas. A new pool discovery in the Countess area flowed 330 barrels of oil per day from forty feet of Glauconitic sandstone. Development drilling delineated gas reserves in Alderson, Kinsella and Wintering Hills and oil reserves in Countess, Chauvin, Alderson and Taber areas of Alberta. Additional gas reserves were developed by a well in Eddy County, New Mexico.

The shallow gas exploration project in southeast Alberta has continued successfully. Thirty-six wells were drilled and completed as gas wells in the Milk River, Medicine Hat and Second White Specks sandstones.

Panarctic Oils Ltd., in which PanCanadian has a 9% interest continued an active exploratory drilling program in the Arctic Islands.

PanCanadian has a right to participate in the recently proposed Cochin Pipeline Project to the extent of 20 percent. Cochin Pipeline plans to build a \$200 million pipeline system in which a 10 inch diameter line will transport ethylene from a petro-chemical plant in Fort Saskatchewan, Alberta to Sarnia, Ontario. Ethane and heavier liquids extracted from streams in Alberta and Saskatchewan would be fed into a 12 inch pipeline going to Windsor, Ontario and Green Springs, Ohio. The National Energy Board hearings involving applications by Cochin to construct and operate the proposed system and to obtain ethane export approval are presently in progress.

The Government of the Province of Alberta has recently struck a rate of 16 mills to be used in determining the tax on proven oil reserves. PanCanadian's estimated tax on oil reserves for fiscal 1973 is \$1.7 million. No announcement has been made on the tax to be levied on proven gas reserves.

During May and June of 1973, the petroleum industry renegotiated existing natural gas contracts with major pipeline firms. Your Company has renegotiated certain contracts at 26¢ per thousand cubic feet, covering approximately 35 million cubic feet per day.

On June 14, 1973, a dividend of 15¢ per share was paid to shareholders of record as of May 25, 1973.

Robert Campbell

Chairman of the Board and
Chief Executive Officer.

Calgary, Alberta.
August 3, 1973.

Jim Taylor

President.

CONSOLIDATED FINANCIAL SUMMARY

(thousands of dollars)

Balance Sheet

Current assets	
Current liabilities	
Working capital	
Property, equipment and other assets	
Long term debt	
Deferred credits	
Shareholders' equity	
Shares outstanding	

June 30	
1973	1972
\$ 27,714	\$ 21,162
11,138	8,172
16,576	12,990
260,447	200,737
277,023	213,727
96,596	48,438
56,748	49,943
\$123,679	\$115,346
31,210,214	31,202,322

Source and Application of Funds

Source:

Funds from operations	
Long term debt	
Long term debt assumed — TransCanada Petroleum Limited	
Other	

Application:

Capital expenditures — net	
Bank loans	
Capital assets acquired — TransCanada Petroleum Limited	
Dividends	
Other	

Increase (decrease) in working capital

For the Six Months Ended June 30	
1973	1972
\$ 24,241	\$ 17,225
10,000	24,338
16,145	—
190	796
50,576	42,359
12,787	13,331
1,528	9,269
44,715	—
4,681	4,680
185	296
63,896	27,576
\$(13,320)	\$ 14,783

Statement of Income

Gross revenue	
Operating and administrative expense	
Interest expense	
Depreciation and depletion expense	
Income before income taxes	
Provision for deferred income taxes	
Net income	
Per share	

\$ 35,668	\$ 22,943
7,512	4,046
3,946	1,683
9,153	6,138
20,611	11,867
15,057	11,076
4,161	3,137
\$ 10,896	\$ 7,939
35¢	25¢

CONSOLIDATED OPERATING SUMMARY

Production — net daily average	
Oil — bbls.	
Natural gas liquids — bbls.	
Empress Plant — bbls.	
Natural gas — MMcf	
"unaudited"	

40,332	27,436
2,984	2,836
7,697	—
51,013	30,272
221.0	203.8